# BENEFITS

FY 2010 LOBS Presentation

December 15, 2008

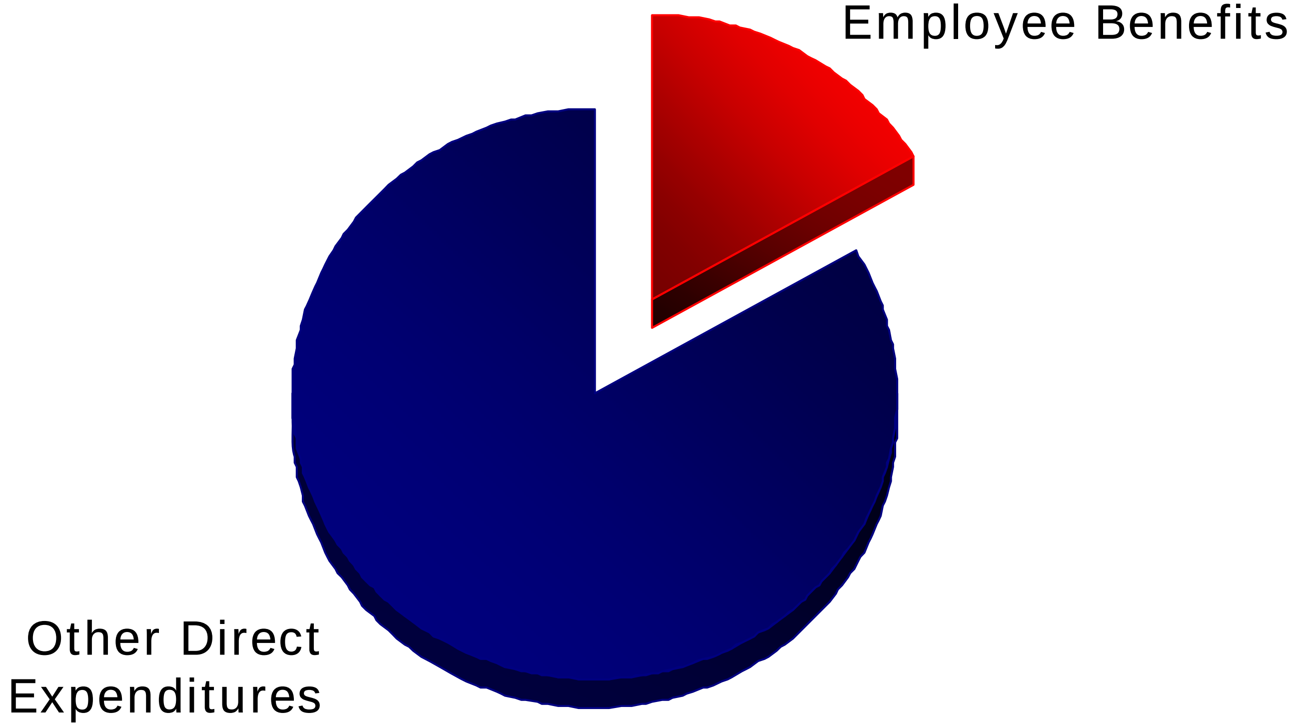
# Benefits

## Presentation Overview

- Benefits in Perspective
- Overview of Benefits Offered
- General Fund Growth and Benefit Enhancements since FY 2001
- Benefit Challenges
- Benefits Structure
- Reduction Philosophy
- Areas for Reduction
- Future Considerations

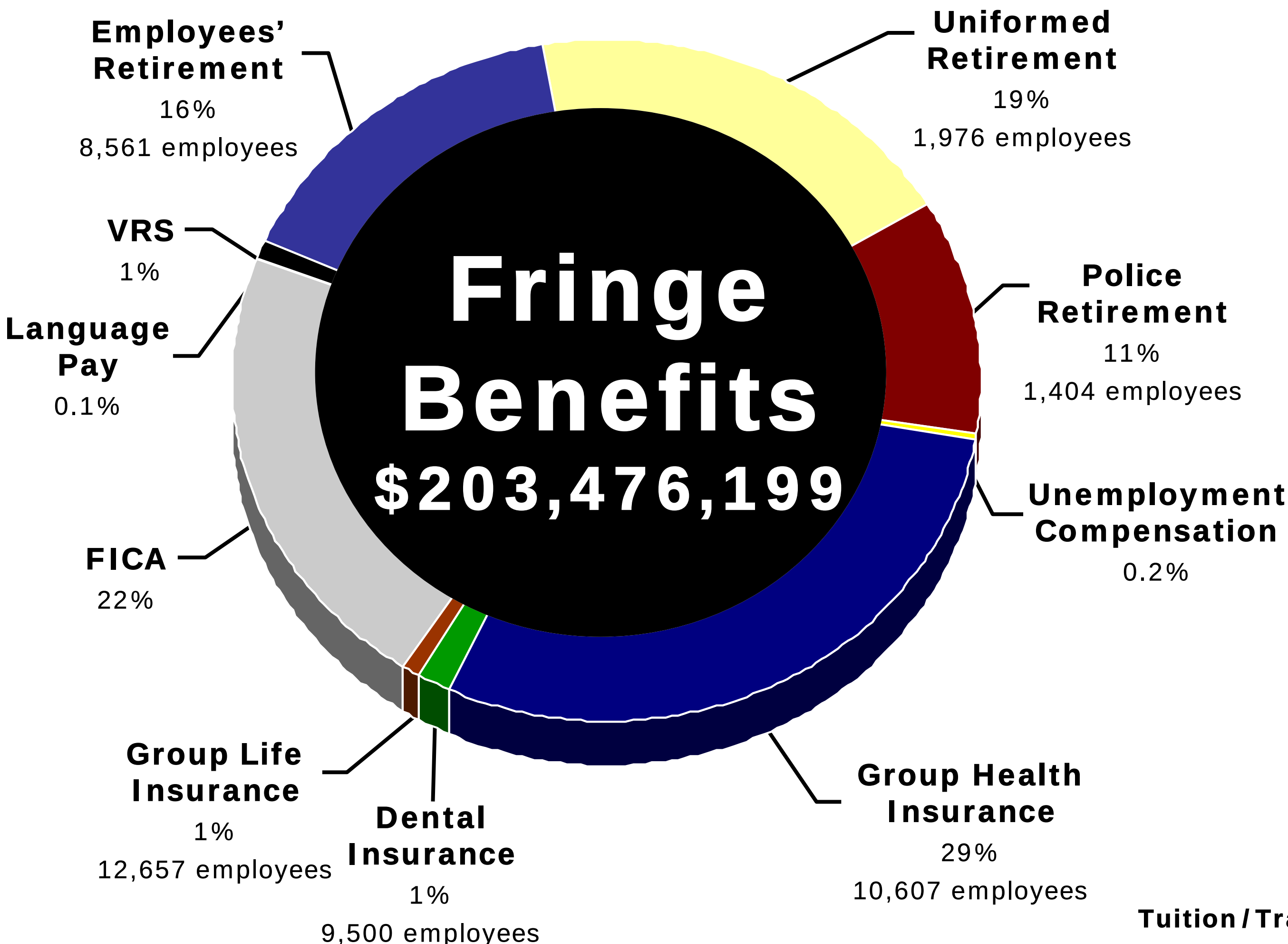
# Benefits in Perspective

- Fringe Benefits and General County Training total over 16% of total General Fund Direct Expenditures



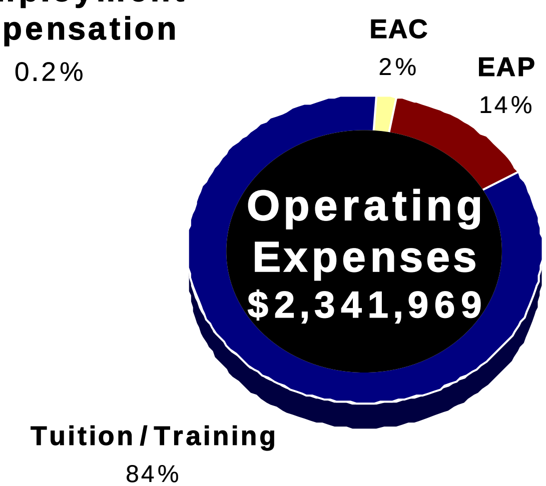
# General Fund Expenditures

## Agency 89, Employee Benefits




FY 2009 Adopted:

$205,818,168



# Overview of Benefits Offered

Employee Benefits

Tuition Assistance and Training

Retiree Benefits

# Employee Benefits

- Health Insurance
  - Choice of Preferred Provider Option (PPO) Plan, Point of Service (POS) Plan, Open Access Plan (OAP), and Health Maintenance Organization (HMO)
  - All but HMO Plan are self-insured
  - Includes Vision benefits
  - County covers 85% of Individual Premiums, 75% of Two-Party and Family Premiums
  - *10,607 active employees enrolled (84% of eligible)*

- Dental Insurance
  - One Fully-Insured PPO Plan
  - County covers 50% of Premiums
  - *9,500 active employees enrolled (75% of eligible)*

- Group Life Insurance
  - Basic coverage (1X salary) provided by County
  - *12,627 active employees enrolled (100% of eligible)*

# Employee Benefits

- Social Security (FICA)
  - Required to meet Social Security and Medicare tax obligations
- Language Proficiency Pay
  - $1,300 annual stipend provided for employees who provide direct service to Limited English Proficiency customers for at least 35% of their work time
- Unemployment Compensation
  - Premiums paid to the state based on the actual number of former Fairfax County employees filing claims
- Employee Assistance Program
  - Includes assessment, intervention, diagnosis, referral, and follow-up for workplace issues

# Tuition Assistance & Training

- Tuition Assistance Program/Language Tuition Assistance Program
- Coordination of various professional degree and certification programs including GMU Fellows, COG Institute of Regional Excellence and Local Government Certificate (VLGMA and Virginia Tech)
- Leadership Development Program

# Retiree Benefits

- Pension Benefits
  - Three Defined Benefit Retirement Plans
    - Police Officers (1,404 active employees)
    - Employees' (15,071 active County/School employees)
    - Uniformed (1,976 active employees)
  - Plan Features
    - Regular Service, Early Service and Disability Benefits
    - Pre-Social Security Benefit for Regular Service and Service-Connected Disabled Retirees (Employees' and Uniformed only)
    - Survivor Benefits
    - Cost-of-Living Adjustments
    - Deferred Retirement Option Plan (DROP)

- Group Life Insurance
  - County provides a portion of basic coverage for all retirees

# Retiree Benefits

- Retiree Health Benefit Subsidy
  - Retirees age 55 and over receive monthly subsidy based on years of service at retirement

| Years of Service at Retirement | Monthly Subsidy |
|---|---|
| 5 to 9 | $30 |
| 10 to 14 | $65 |
| 15 to 19 | $155 |
| 20 to 24 | $190 |
| 25 or more | $220 |

- Subsidized Health and Dental Insurance Premiums
  - Premiums are set using experience of actives and retirees. Thus, retirees receive “implicit” subsidy towards premiums.

# Changes in Benefits Since FY 2001

General Fund Growth

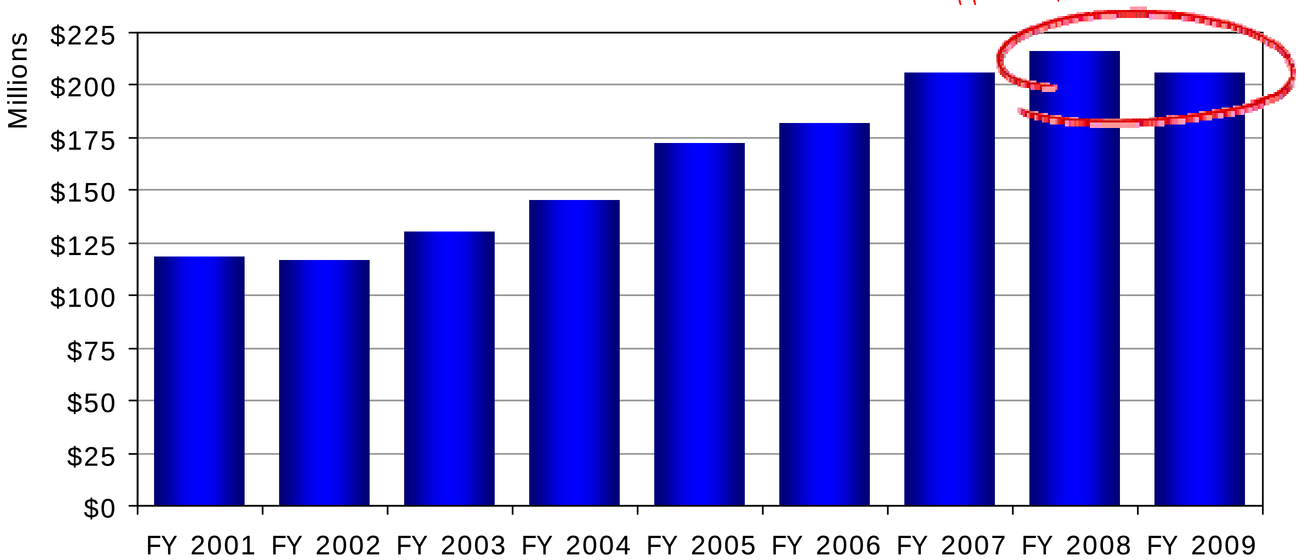
Benefit Enhancements

Benefit Challenges

# General Fund Growth

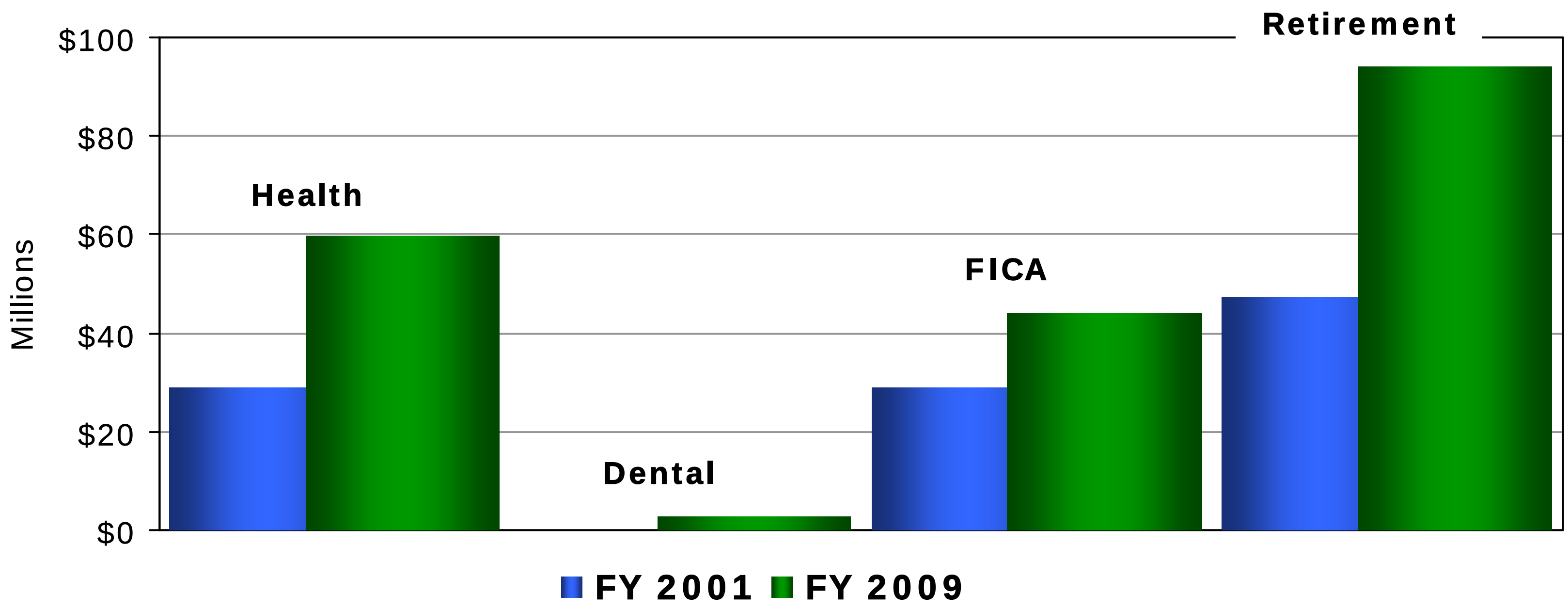
- General Fund disbursements for benefits have grown from $112.7 million in FY 2001 to $205.8 million in FY 2009, an average annual growth of 11.8%

Due to budget constraints, balances in the County's self-insured trust fund were used to offset General Fund disbursements in FY 2009



# Drivers of Growth

- The major drivers in General Fund growth have been Health Insurance premiums (increase of 105% from FY 2001 to FY 2009), Social Security (53%) and Retirement (98%)




- The employer contribution for dental was not implemented until FY 2005.

# Benefit Enhancements

## Since FY 2001

### Health Insurance

- Expanded health insurance options (FY 2007)
  - Changed HMO option to an Open Access Plan (OAP), changing from fully-insured plan to self-insured plan
  - Self-insuring the plan allows the County to more fully control the plan and make decisions regarding premiums to smooth impact of increases on employees
- Added Vision Benefits to health plans (FY 2007)
- Health Promotion and Wellness Initiative (FY 2009)
  - Health Risk Assessments (HRAs) and targeted programming
  - Enhanced disease management program
  - Reduced membership fees at County RECenters
  - Influenza vaccinations

### Dental Insurance

- Preferred Provider Option plan implemented with 50% employer contribution (FY 2005)

# Benefit Enhancements

## Since FY 2001

### Retirement

- The benefit enhancements listed below resulted in increases to the employer contribution rates for the associated system

- Uniformed Retirement System
  - Increased the multiplier from 1.8 to 2.0 for Plans A/B and 2.3 to 2.5 for Plans C/D (FY 2001)
  - Added pre-social security multiplier of 0.3 for Plans C/D and 0.2 for Plans A/B (FY 2003)
  - Average special increase of 12 percent for pre-March 2002 retirees (FY 2004)
  - Deferred Retirement Option Plan (DROP) added (FY 2004)
  - Elective COLA (FY 2004)
  - Allowed Department of Public Safety Communications Center staff to join the system (FY 2006)
  - Reduction in the Social Security offset from 64% to 40% for Service-Connected Disability Benefits (FY 2008)
  - Reduction in the Social Security offset from 40% to 30% for Service-Connected Disability Benefits (FY 2009)

# Benefit Enhancements

## Since FY 2001

- Employees' Retirement System
  - Extended pre-62 Supplemental benefit to normal social security retirement age for General County employees (FY 2001)
  - Elective COLA (FY 2004)
  - Deferred Retirement Option Plan (DROP) added (FY 2006)
  - Reduction in the Social Security offset from 64% to 40% for Service Connected Disability Benefits (FY 2008)
  - Reduction in the Social Security offset from 40% to 30% for Service Connected Disability Benefits (FY 2009)

# Benefit Enhancements

## Since FY 2001

- Police Officers Retirement System
  - Increased the multiplier from 2.5 to 2.8; retirees received 12% increase (FY 2001)
  - Deferred Retirement Option Plan (DROP) added (FY 2004)
  - Elective COLA (FY 2004)
  - Elective COLA (FY 2006)
  - Elective COLA (FY 2007)
  - Elective COLA (FY 2008)
  - Phased in decrease in the employee contribution rate from 12% to 11% (FY 2008)
  - Elective COLA (FY 2009)
  - Phased in decrease in the employee contribution rate from 11% to 10% (FY 2009)

# Benefit Enhancements

## Since FY 2001

Retiree Health

- Various Enhancements to Retiree Health Benefits Subsidy
  - Increased from a $100 flat rate to a new structure which included a range of subsidies which varied by length of service and Medicare eligibility (FY 2004)
  - Adjusted so that retirees with 20 or more years of service did not experience a reduction in their subsidy when they reached the age of Medicare eligibility (FY 2005)
  - Adjusted so that there is no reduction for any retiree when they reached the age of Medicare eligibility. Furthermore, the subsidy was temporarily increased by 25% in response to the implementation of Medicare Part D, with increased costs offset by subsidy received from CMS (FY 2007)
  - The County began providing the maximum Retiree Health Benefit Subsidy ($220 per month) to those Police Officers age 55 or over who were hired before July 1, 1981 and retired or will retire with full retirement benefits with 20 but less than 25 years of service (FY 2007)

# Benefit Enhancements

## Since FY 2001

| Changes in Retiree Health Benefits Subsidy since FY 2001 | | | | | | |
|---|---|---|---|---|---|---|
| | FY 2001 | FY 2004 | | FY 2005 | | FY 2007 |
| | | Age at Retirement | | Age at Retirement | | |
| Years of Service | | < 65 | > 65 | < 65 | > 65 | |
| 5 to 9 | $100 Regardless of Years of Service | $25 | $15 | $25 | $15 | $30 |
| 10 to 14 | | $50 | $25 | $50 | $25 | $65 |
| 15 to 19 | | $125 | $75 | $125 | $75 | $155 |
| 20 to 24 | | $150 | $100 | $150 | $150 | $190 |
| 25 or more | | $175 | $125 | $175 | $175 | $220 |

Benefit commences at age 55;
Only Retirees who participate in County Health Insurance are eligible

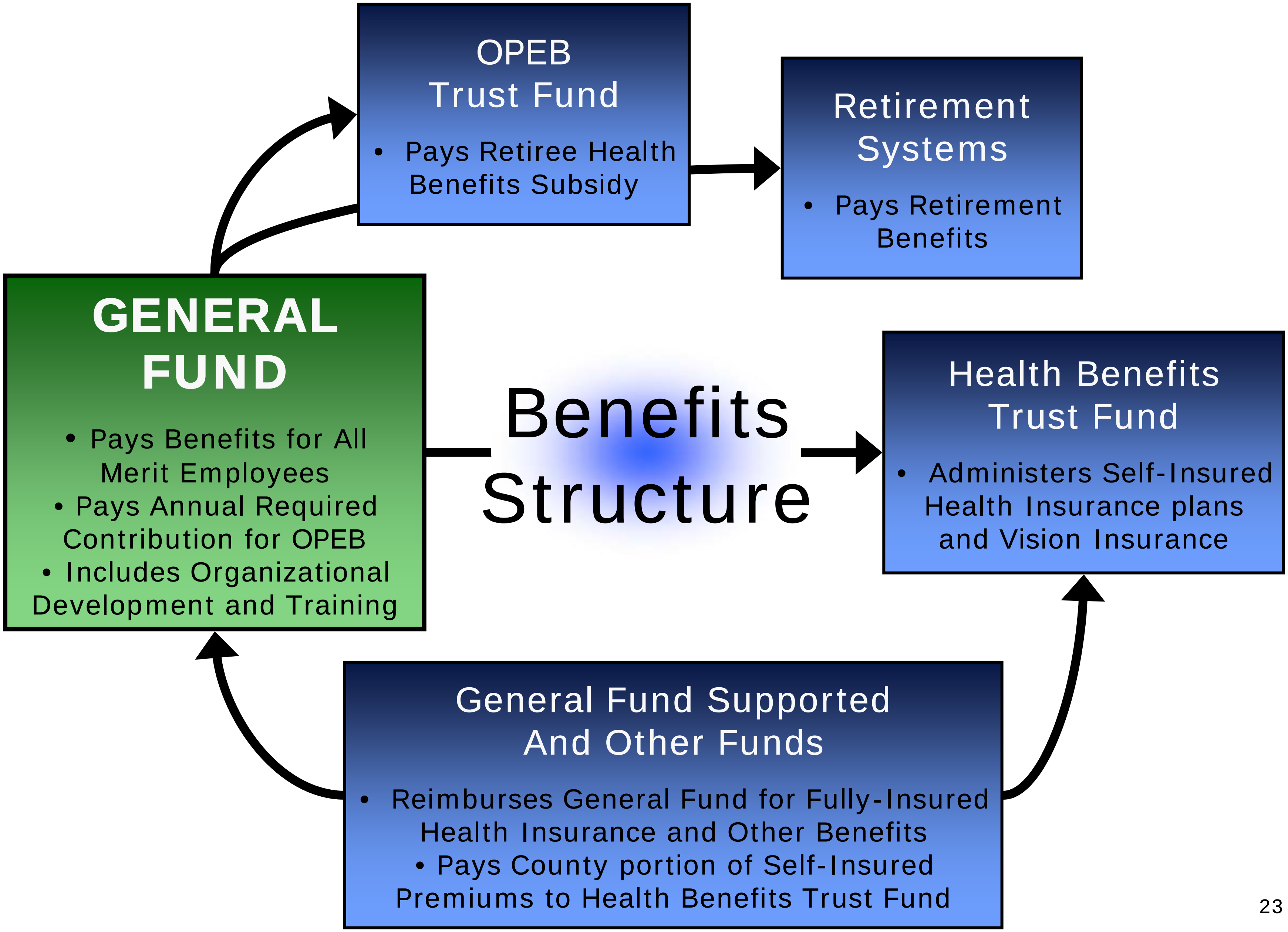
# Benefit Challenges

- Rising medical costs
- Maintaining retiree health benefits in the era of GASB 45
- Increasing complexity surrounding retiree benefit options and Medicare Part D products
- Maintaining the appropriate balance between necessary reserves and premium increases for the self-insured health plans
- Maintaining premium increases at moderate levels while recognizing the potential impact on the County's GASB liability
- Managing expectations regarding benefit enhancements
- Expectations of multi-generational workforce
- Legislation and mandates
- Continued emphasis on wellness

# Benefits Structure

# Benefits Structure

- Benefits for County Employees and Retirees are administered through six funds:
  - General Fund (Agency 89, Employee Benefits, and Transfers Out for Retiree Health)
  - Fund 506, Health Benefits Trust Fund
  - Fund 600, Uniformed Retirement System
  - Fund 601, Employees' Retirement System
  - Fund 602, Police Officers Retirement System
  - Fund 603, OPEB (Other Post Employment Benefits) Trust Fund


OPEB
Trust Fund
• Pays Retiree Health Benefits Subsidy
Retirement Systems
• Pays Retirement Benefits
GENERAL FUND
• Pays Benefits for All Merit Employees
• Pays Annual Required Contribution for OPEB
• Includes Organizational Development and Training
Benefits Structure
Health Benefits Trust Fund
• Administers Self-Insured Health Insurance plans and Vision Insurance
General Fund Supported And Other Funds
• Reimburses General Fund for Fully-Insured Health Insurance and Other Benefits
• Pays County portion of Self-Insured Premiums to Health Benefits Trust Fund

# General Fund

- Agency 89, Employee Benefits
  - Funds all benefits for County merit employees, including:
    - Group Health Insurance
    - Dental Insurance
    - Group Life Insurance
    - FICA (Social Security)
    - Retirement
    - Unemployment Compensation
    - Training/Tuition Reimbursement
    - EAC (Employees Advisory Council)
    - EAP (Employee Assistance Program)
  - Other Funds reimburse the General Fund for fully-insured health insurance benefits, dental, FICA, and retirement

# General Fund

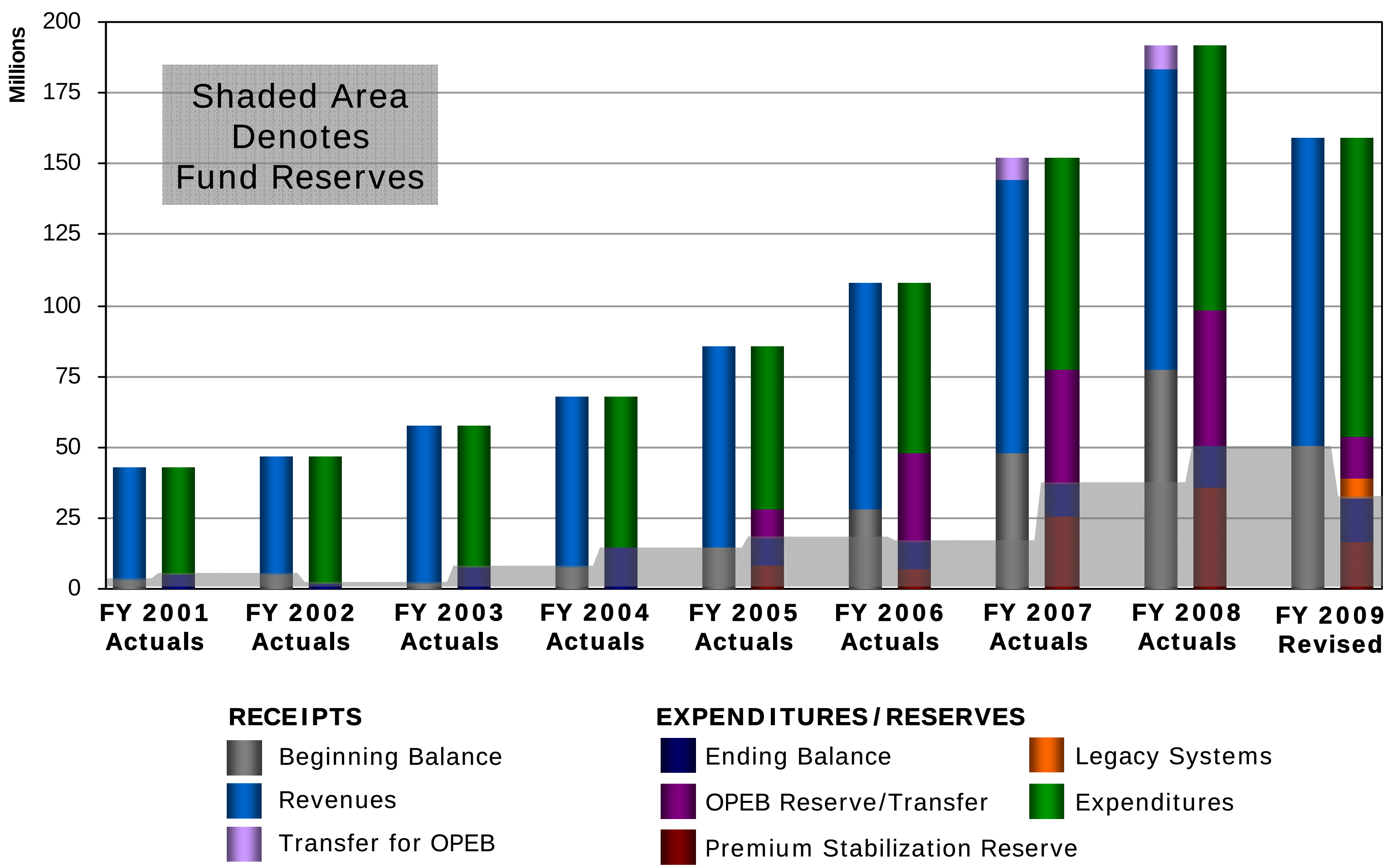
- Transfers for Retiree Health
  - The General Fund also funds retiree health benefits through a transfer to the new OPEB (Other Post-Employment Benefits) Trust Fund (Fund 603)
  - Prior to FY 2009, retiree health was funded through a transfer from the General Fund to the Retiree Health Benefits Fund (Fund 500)

# Health Benefits Trust Fund

- Administrative unit for the County's three self-insured health plans and vision plan
- County pays only for claims and third-party administrative fees
- Cost to fund claims expenses covered by premiums for active employees, the employer, retirees, and retention of investment earnings
- Funds new Health Promotion and Wellness Initiative
- Maintains targeted ending balance of two months of claims
- Also maintains Premium Stabilization Reserve in order to mitigate the impact of dramatic cost growth swings

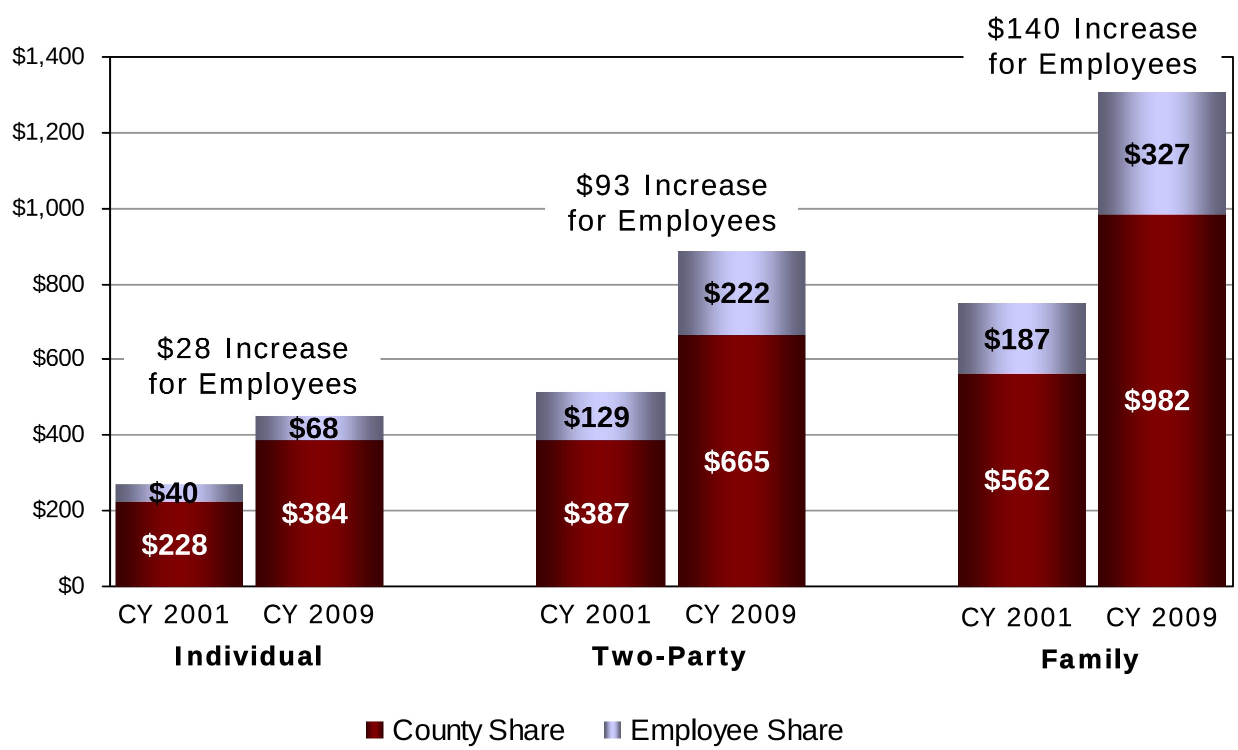
# Health Benefits Trust Fund

## Receipts, Expenditures & Reserves



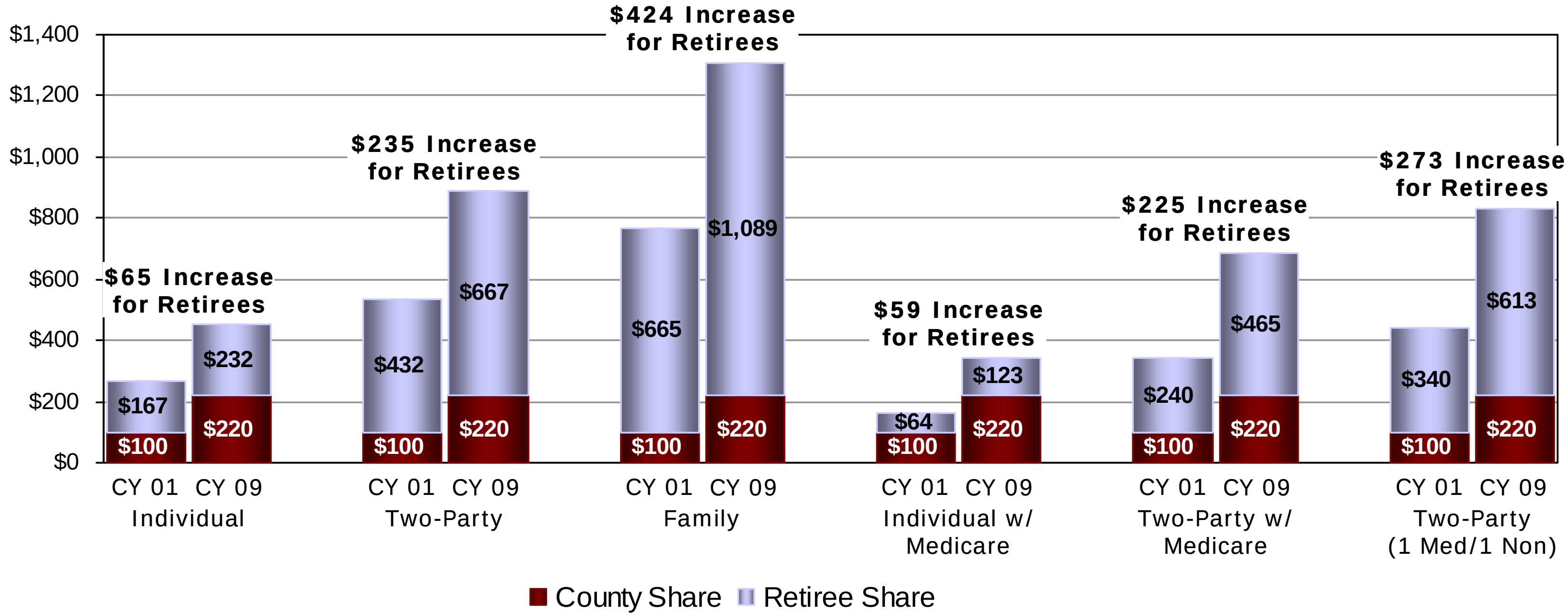
# Premium Increases
## Active Employees

- On average, monthly premiums have increased 9% annually for the self-insured health plans since CY 2001



# Premium Increases
## Retirees

- On average, premiums have increased 11% annually for the self-insured health plans since CY 2001
- For a retiree qualifying for the maximum monthly (explicit) subsidy, the retiree share of premiums has increased 9% annually



# Retirement Funds

- The County's three retirement systems are funded through employer and employee contributions, as well as retained investment earnings
- Employer and employee contributions are defined as a percentage of salary
- In FY 2003, the County implemented a corridor approach to employer contributions. Adjustments to the employer contribution rates are made if the funding ratio falls out of the corridor of 90% to 120%

# Retirement

## Contribution Rates

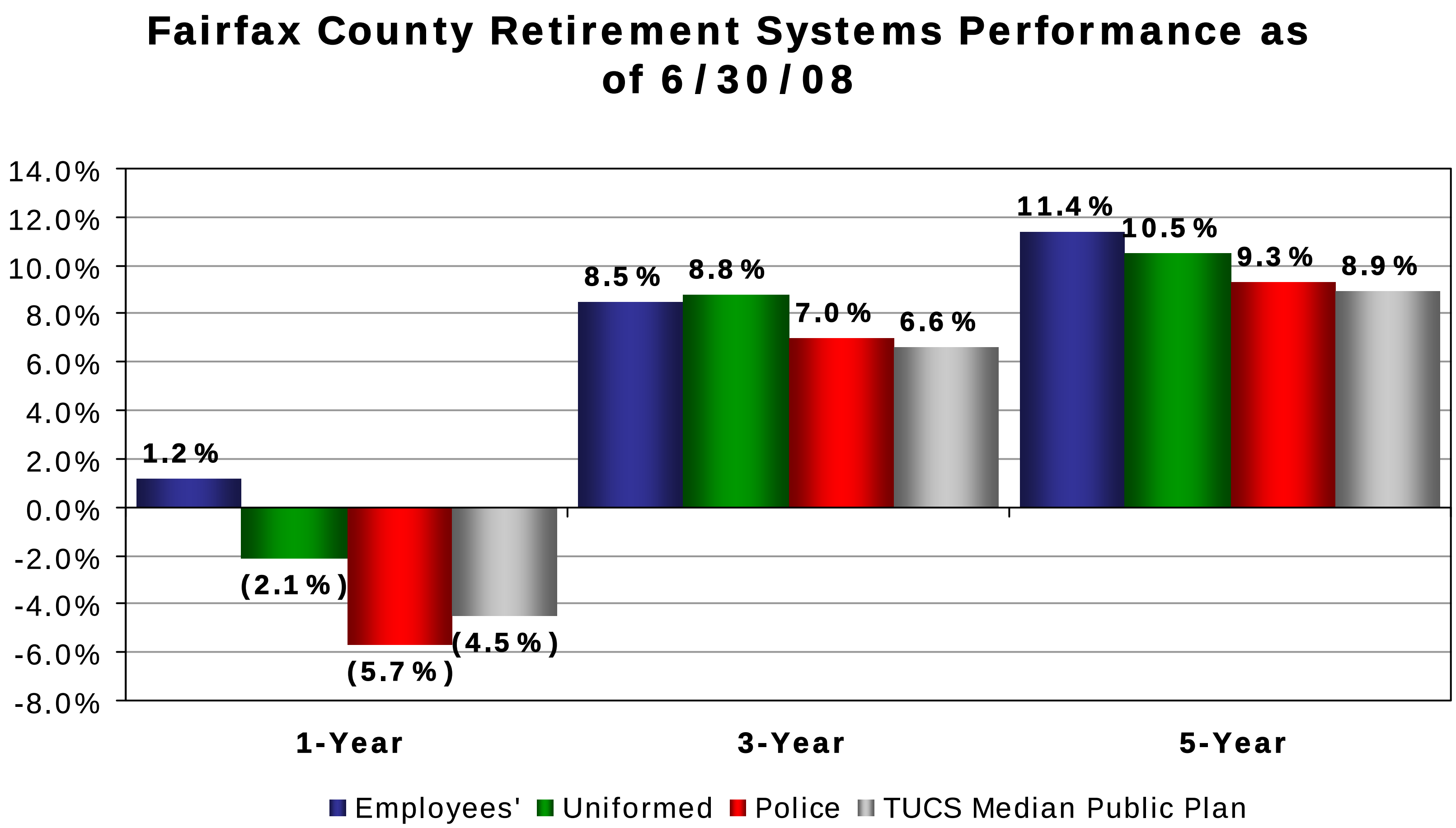
- FY 2009 employee and employer contribution rates are as follows:

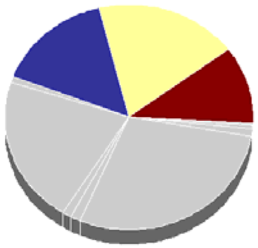
| | Employee Contribution Rates | Employer Contribution Rates |
|---|---|---|
| Police | 10% | 22.34% |
| Employees' | 4.00-5.33%[1] | 9.62% |
| Uniformed | 7.08%[2] | 26.46% |

[1] Members of the Employees' Retirement System have the option of choosing between two levels of benefits within the first 30 days of employment

[2] Uniformed members hired before April 1, 1997 may have different employee contribution rates as different plans were in place before this date.

# Retirement
## Investment Returns





# Retirement

## Employer Contribution Rates

- Employer contribution rates are adjusted only to fund approved benefit enhancements, to acknowledge changes in actuarial assumptions based on financial and demographic experiences, and to recognize funding adjustments required when the funding ratio falls below 90 percent or rises above 120 percent
- Benefit enhancements approved since FY 2001 result in an estimated FY 2010 General Fund impact of over $16 million

**Employer Contribution Rates since FY 2001**

| | FY 2001 | FY 2009 | Inc./ (Dec.) | Benefit Enhancements | Actuarial Valuation Adjustments |
|---|---|---|---|---|---|
| Police | 25.69 | 22.34 | (3.35) | 4.39 | (7.74) |
| Employees' | 6.29 | 9.62 | 3.33 | 0.29 | 3.04 |
| Uniformed | 20.11 | 26.46 | 6.35 | 7.57 | (1.22) |

# Retirement

## Cost-of-Living Adjustments

- Retirees are eligible to receive a Cost-of-Living Adjustment (COLA) composed of a base COLA which is the lesser of the Consumer Price Index (CPI) for the 12 months ending on the previous year’s March 31, or 4.0%.
- An ad-hoc 1.0% COLA can be awarded at the discretion of each retirement system’s Board of Trustees if the actuary determines that certain criteria have been met. This additional COLA is considered a benefit enhancement and results in an increase in the employer contribution rate.
- In June 2008, the Board of Trustees for the Police Retirement System approved an ad-hoc 1.0% COLA. The FY 2010 General Fund impact of this COLA is $0.5 million.

# Retirement

## Funding Ratios

- Current funding ratios:

| Retirement System Funding Ratios | |
|---|---|
| | June 30, 2008 |
| Employees’ | 85.3% |
| Police | 91.7% |
| Uniformed | 92.3% |

- Until the funding ratio is back into the corridor, the Employees’ employer contribution rate may change each year depending on investment returns and changes in liabilities.

# OPEB Trust Fund

- The OPEB Trust Fund was created in FY 2008 in response to the Governmental Accounting Standards Board (GASB) Statement No. 45 requiring changes in accounting for Other Post Employment Benefits (OPEB).
- GASB 45 requires that the County accrue the cost of the retiree health subsidy and other post-employment benefits during the period of employees' active employment, while the benefits are being earned, and disclose the unfunded actuarial accrued liability in order to accurately account for the total future cost of post-employment benefits and the financial impact on the County
- This funding methodology mirrors the funding approach used for pension benefits.

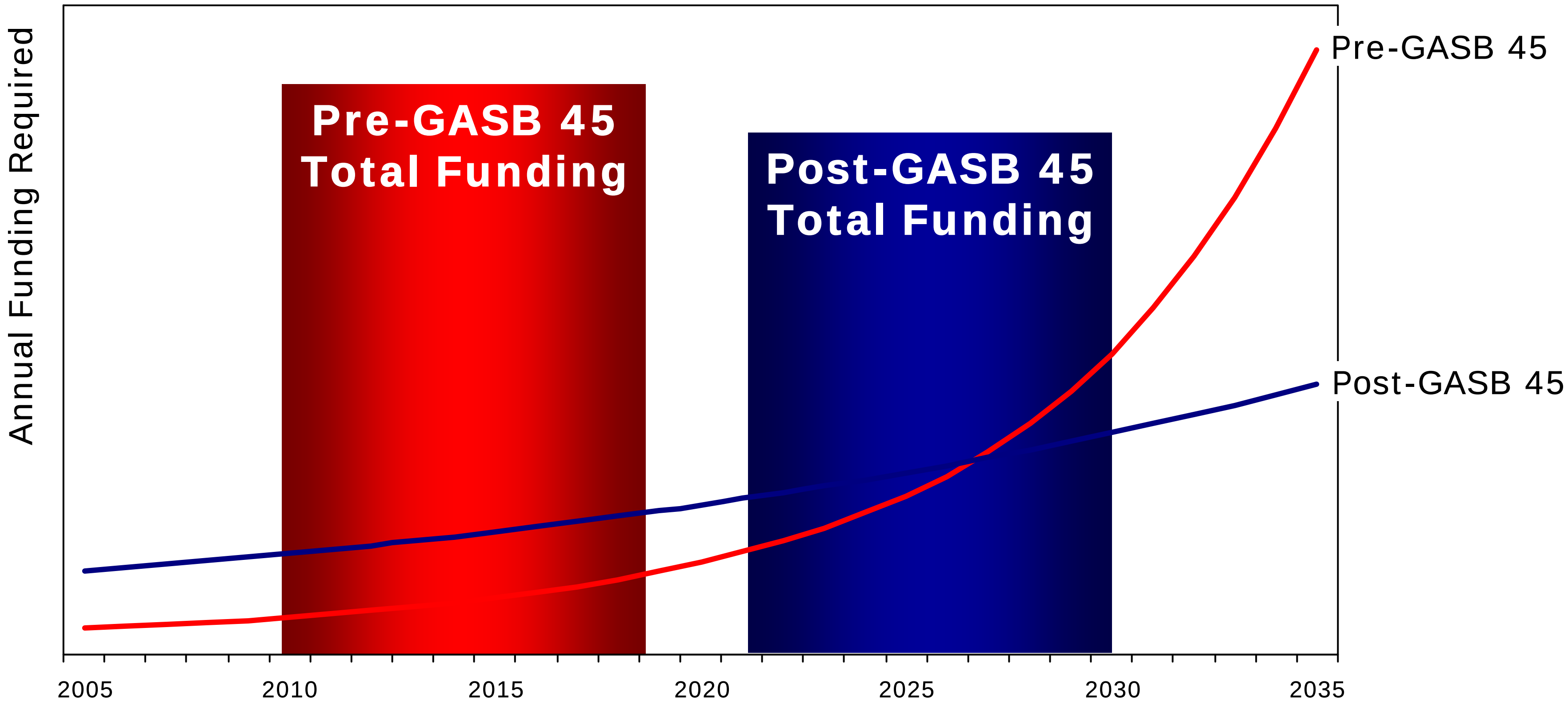
# OPEB Trust Fund

## Pre-Funding Under GASB 45

- GASB 45 does not require that the County pre-fund retiree health benefits. However, if the County does not pre-fund, a lower discount rate must be utilized in the actuarial valuation and the liability carried on the County's financial statements would be much higher, potentially endangering the County's triple-AAA bond rating.
- The County created the OPEB Trust Fund to begin to pre-fund and accumulate assets for OPEB.
- In the long-term, pre-funding allows the County to provide retiree health benefits at a lower cost to taxpayers since the County can earn significant investment returns on the accumulated funds. The assumed actuarial rate of return for OPEB is 7.5% – the same as the retirement systems.

# OPEB Trust Fund

## Why Pre-Fund?



# OPEB Trust Fund

## Accumulation of Assets and Pooled Trust

- Beginning in FY 2005, the County began setting aside funds in a reserve in the Health Benefits Trust Fund for OPEB. By FY 2008, $48.2 million had been accumulated through transfers for OPEB from the General Fund and excess County contributions for the self-insured plans.
- In FY 2008, the County moved the $48.2 million from the reserve to the new fund.
- Also in FY 2008, the County was a founding member of the Virginia Pooled OPEB Trust Fund in cooperation with the Virginia Municipal League (VML)/Virginia Association of Counties (VACo) Finance Program and other jurisdictions in Virginia. The Retirement Agency Director represents the County as Chairman of the Board of Trustees for the pooled trust and actively participates in decision-making to prudently invest accumulated resources for OPEB.

# GASB 45 Liability Components

- Three benefits offered to retirees are required by GASB 45 to be included in the County's overall liability
  - **Explicit Subsidy** – the monthly subsidy (maximum $220) offered to retirees age 55 or over who maintain County health insurance
  - **Implicit Subsidy** – the benefit to retirees of paying premiums calculated utilizing the blended experience of actives and retirees
  - **Life Insurance** – the basic life insurance coverage provided by the County to retirees
- In FY 2008, the liability attributed to the implicit subsidy made up over 70% of the County's total liability

# Actuarial Accrued Liability

- The FY 2008 Actuarial Accrued Liability (AAL) under GASB 45 was $379.9 million.

| July 1, 2007 Valuation Results | |
|---|---|
| | **AAL** |
| Medical – Implicit Subsidy | $263.7 |
| Medical – Explicit Subsidy | $99.8 |
| Life Insurance | $16.4 |
| **Total** | **$379.9** |

- The corresponding Annual Required Contribution (ARC) for FY 2008 was $31.6 million. The County fully funded the ARC in FY 2008 utilizing the $48.2 million reserve from the Health Benefits Trust Fund.
- The AAL listed above does not include the liability for Fairfax County Public Schools

# Reduction Considerations and Other Initiatives

Reduction Philosophy

Areas for Reduction

Impact of Position Reductions

Future Considerations

# Reduction Philosophy

- Mitigate impact to employees and retirees
- Maintain programs such as the EAP that can assist employees during the difficult economic period
- Recognize that some benefit changes cannot be immediately implemented
- Remain competitive with surrounding jurisdictions
- Look at potential savings in administrative costs
- Consider expectations of new hires
- Implement changes that can be sustained in the long-term

# Areas for Reduction

| Priority Ranking | Reduction Description | Net Reduction |
|---|---|---|
| 1 | Reduce funding for the Tuition Assistance Program and Language Tuition Assistance Program by 65 percent | $233,232 |
| 2 | Reduce funding for the Employees Advisory Council by 15 percent | $6,178 |
| 3 | Reduce funding for IT training by 81 percent | $220,000 |
| 4 | Eliminate Language Skills Stipend | $406,879 |
| 5 | Prorate employer health insurance contribution for part-time employees | $799,497 |
| **Total FY 2010 Savings** | | **$1,665,786** |

# Reduction Priorities
## for FY 2010

**Reduction 1: Reduce Funding for the Tuition Assistance Program (TAP) and Language Tuition Assistance Program (LTAP)**

- **Reduction: $233,232, 0 / 0.0 SYEs**
- Funding for the Tuition Assistance Program would be reduced by 65 percent of the current funding level of $360,000 ($300,000 for TAP, $60,000 for LTAP). This program is utilized by over 300 County employees annually, and there is typically a wait list by February of each fiscal year as all available funding is exhausted.
- **Impact:** With the remaining funding of $126,768, slightly more than 100 employees will be able to receive reimbursement. This will significantly curtail the level of employee development.

# Reduction Priorities
## for FY 2010

**Reduction 2: Reduce Funding for the Employees Advisory Council (EAC)**

- **Reduction: $6,178, 0 / 0.0 SYEs**
- Funding for the Employees Advisory Council would be reduced by 15 percent of the current funding level of $41,189.
- Funding for the Employees Advisory Council is typically determined using one-third of 85 percent of prior year revenues realized from vending machine sales.
- **Impact:** EAC would need to manage spending in order to remain within the reduced appropriation.

# Reduction Priorities

for FY 2010

**Reduction 3: Reduce Funding for IT Training by 81 percent**

- **Reduction: $220,000, 0 / 0.0 SYEs**
- Funding for Information Technology (IT) Training would be reduced by 81 percent of the current funding level of $270,000, leaving a total of $50,000. The current funding level supports Outlook training for new employees and IT training for IT staff in agencies other than the Department of Information Technology (DIT).
- **Impact:** New employees unfamiliar with Outlook will have difficulty integrating into the County system. Additionally, as various agencies are required to support small systems non-compliant with the environment DIT supports, the risk of system failure due to lack of needed expertise will increase.

# Reduction Priorities
for FY 2010

## Reduction 4: Eliminate Language Skills Stipend

- **Reduction: $406,879, 0 / 0.0 SYEs**
- In FY 2007, a Language Skills Proficiency pay program was created to attract and retain employees with bilingual language skills. Employees that provide direct service to Limited English Proficiency (LEP) customers for at least 35 percent or more of their work time are eligible for the $1,300 annual stipend.
- **Impact:** Many County departments are increasingly turning to employees with bilingual skills to provide direct service to LEP customers. Elimination of the stipend could increase the difficulty in retaining and recruiting employees with these skills.

# Reduction Priorities
## for FY 2010

### Reduction 5: Prorate Employer Health Insurance Contribution for Part-Time Employees

- **Reduction: $799,497, 0 / 0.0 SYEs**
- FY 2011 savings would total $1,603,145
- Currently, part-time employees working at least 20 hours per week receive the same County contribution towards health insurance as full-time employees
- Beginning in FY 2010, employer contributions for employees working 20-30 hours per week would be reduced over two years to 50% of the current employer contribution. Employees working more than 30 hours per week would be considered full-time for health insurance purposes.

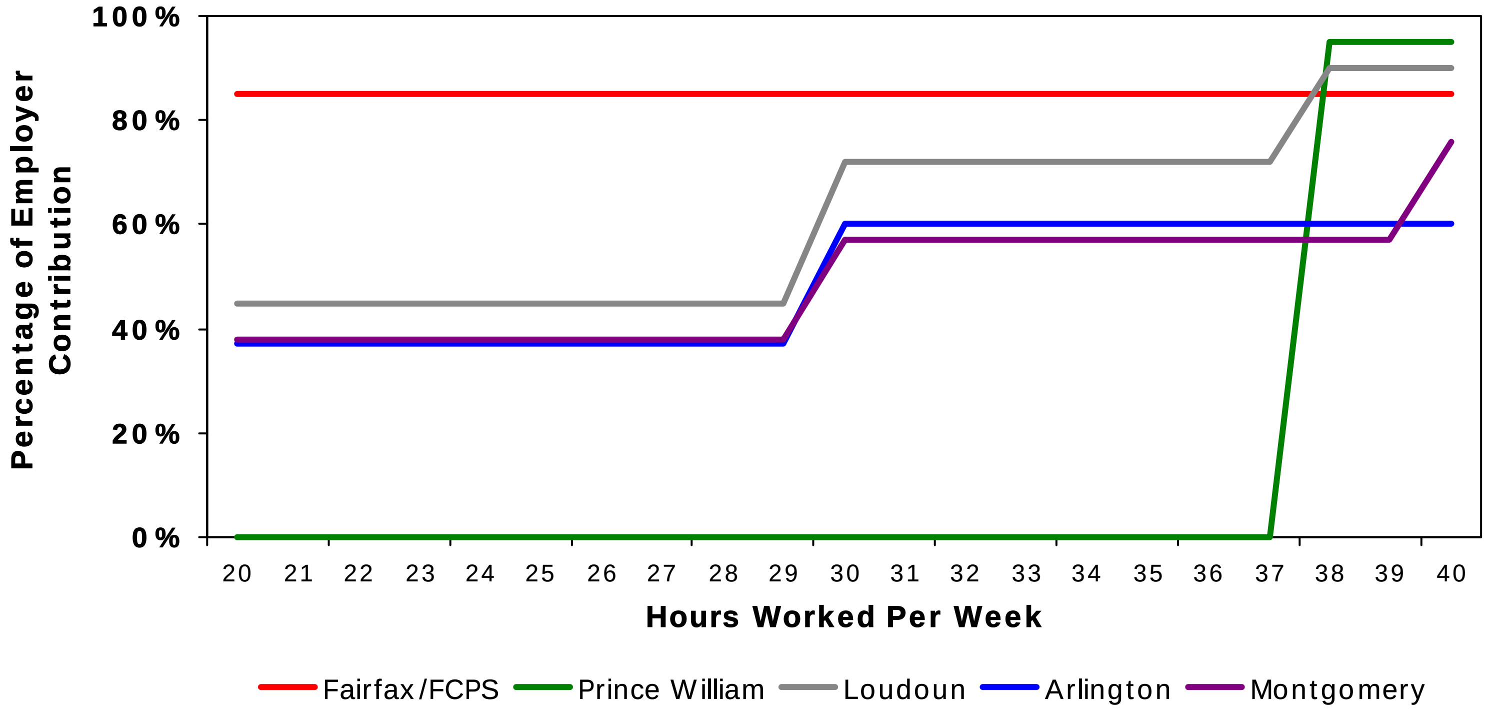
# Reduction Priorities

## for FY 2010

| Current and Proposed Employer Contributions for Health Insurance | | | |
|---|---|---|---|
| | Current | Proposed | |
| | CY 2009 | CY 2010 | CY 2011 |
| **Full-Time (31+ Hours)** | | | |
| Individual | 85% | 85% | 85% |
| Two-Party/Family | 75% | 75% | 75% |
| **Part-Time (20-30 Hours)** | | | |
| Individual | 85% | 63.8% | 42.5% |
| Two-Party/Family | 75% | 56.3% | 37.5% |

# Reduction Priorities
## for FY 2010

- Of the surrounding jurisdictions examined, Fairfax County has one of the richest benefits for part-time employees working 20 hours or more.



# Reduction Priorities
## for FY 2010

- **Impact:** Currently, 397 part-time employees working 20-30 hours per week participate in County health insurance. Using the POS Plan as an example, the monthly impact to the employee in FY 2010 would range from $96 (individual plan) to $245 (family). In FY 2011, these fiscal impacts would double.

- Alternatively, the reduction in the employer contribution for part-time employees could be implemented for new hires only. Savings from this alternative would be minimal initially until significant turnover in part-time positions occurred.

# Impact of Position Reductions

- If filled positions are cut as part of the FY 2010 budget process, savings in fringe benefits will be realized
- Additionally, some agencies identified savings by charging current General Fund positions to Other Funds, which would also impact fringe benefits
- The potential fiscal impact of position reductions is difficult to determine as the incumbents in positions identified for reduction may not ultimately be those impacted through the Reduction-in-Force process
- In FY 2010, savings from salaries and fringe benefits would be partially offset through increased leave payouts, severance pay, and an increase in unemployment compensation expenses

# Future Considerations

- Health Insurance Plan Consolidation resulting in potential administrative savings
- Examination of recent market trends, including consumer-directed health plans and retirement health savings accounts, geared towards a multi-generational workforce
- Exploration of alternatives to assist retirees with medical expenses without significantly impacting GASB liability
- Analysis of total compensation and benefits package for competitiveness with surrounding jurisdictions and ability to recruit and retain employees
- Consideration of pooling assets of the three County retirement systems for investment purposes only
- Exploration of charging non-General Fund agencies for OPEB expenses

# Questions and Answers